
State of Wisconsin
Event Filing #2016-20
Dated December 21, 2016

This Event Filing concerns an event described in Securities and Exchange Act Rule 15c2-12, as amended.

Issuer: State of Wisconsin
Clean Water Revenue Bonds

CUSIP Numbers: 977092 Prefix (All)

Type of Information: Financial/Operating Data Disclosures Filing;
Rule 15c2-12 Disclosure; Audited Financial Statements

Attached are:

- (1) financial statements for the years ended June 30, 2016 and June 30, 2015, supplemental information for the year ended June 30, 2016, and independent auditor's report for the State of Wisconsin Environmental Improvement Fund, and
- (2) financial statements for the year ended June 1, 2016 and independent auditor's report for the Leveraged Loan Portfolio.

The attached items will also be included in the State's Continuing Disclosure Annual Report, which is expected to be filed on or before December 27, 2016.

The State of Wisconsin is providing this Event Filing with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access system. This Event Filing is also available on the State of Wisconsin Capital Finance Office web site at:

doa.wi.gov/capitalfinance

The undersigned represents that he is the Capital Finance Director, State of Wisconsin Capital Finance Office, which is the office of the State of Wisconsin responsible for providing annual reports and Event Filings pursuant to the State's Master Agreement on Continuing Disclosure (Amended and Restated December 1, 2010), and is authorized to distribute this information publicly.

/s/ DAVID R. ERDMAN

David R. Erdman, Capital Finance Director
State of Wisconsin Capital Finance Office
Wisconsin Department of Administration
101 East Wilson Street, FLR 10
Madison, WI 53703
Phone: (608) 267-0374
Fax: (608) 266-7645
E-mail: DOACapitalFinanceOffice@wisconsin.gov
Website: www.doa.state.wi.us/capitalfinance

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended June 30, 2016 and 2015

AND

SUPPLEMENTAL INFORMATION

As of and for the Year Ended June 30, 2016

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1 – 3
FINANCIAL STATEMENTS	
Statements of Net Position – As of June 30, 2016 and 2015	4
Statements of Revenues, Expenses, and Changes in Net Position – For the Years Ended June 30, 2016 and 2015	5
Statements of Cash Flows – For the Years Ended June 30, 2016 and 2015	6 – 7
Notes to Financial Statements	8 – 27
SUPPLEMENTAL INFORMATION	
Statement of Net Position by Program – As of June 30, 2016	28 – 31
Statement of Revenues, Expenses, and Changes in Net Position by Program – For the Year Ended June 30, 2016	32 – 33
Statement of Cash Flows by Program – For the Year Ended June 30, 2016	34 – 37
OTHER INFORMATION (UNAUDITED)	38
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	39 – 40

INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration and the Secretary of the Department of
Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the years ended June 30, 2016, and 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control over financial reporting relevant to the State of Wisconsin Environmental Improvement Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Secretary of the Department of Administration and the Secretary of the Department of
Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State of Wisconsin Environmental Improvement Fund, as an enterprise fund of the State of Wisconsin, as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin, as of June 30, 2016, and 2015, and the changes in financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Statement of Net Position by Program, Statement of Revenues, Expenses, and Changes in Net Position by Program, and the Statement of Cash Flows by Program as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Net Position by Program, Statement of Revenues, Expenses, and Changes in Net Position by Program, and the Statement of Cash Flows by Program are fairly stated in all material respects, in relation to the financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the State of Wisconsin Environmental Improvement Fund's financial statements. The "Other Information" listed in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

To the Secretary of the Department of Administration and the Secretary of the Department of
Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016 on our consideration of the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting and compliance.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
December 14, 2016

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF NET POSITION
As of June 30, 2016 and 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets		
Unrestricted cash and cash equivalents	\$ 473,557,839	\$ 365,403,382
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,669,251	45,594,883
Receivables		
Loans to local governments - current portion	176,314,894	177,337,982
Due from other funds	111,248	2,849
Due from other governmental entities	10,637,631	8,805,800
Accrued investment income	190,009	190,009
Prepaid items	16,912	20,181
Total Current Assets	706,497,784	597,355,086
Noncurrent Assets		
Restricted assets - cash equivalents	93,918,196	98,781,334
Investments - State of Wisconsin general obligation clean water bonds, at fair value	187,049,829	176,611,170
Loans to local governments	1,794,103,762	1,861,526,894
Advances to other funds	6,238,282	6,222,149
Prepaid items	116,802	133,688
Net pension assets	-	81,885
Total Noncurrent Assets	2,081,426,871	2,143,357,120
Total Assets	2,787,924,655	2,740,712,206
Deferred Outflows of Resources		
Pension related amounts	174,945	48,406
Unamortized charges	30,433,129	14,411,933
Total Deferred Outflows of Resources	30,608,074	14,460,339
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 2,818,532,729	\$ 2,755,172,545
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities		
Accrued expenses	\$ 220,052	\$ 149,714
Accrued interest on bonds	2,743,258	2,888,107
Due to other funds	3,960,037	1,263,841
Due to other governmental entities	3,226	223,903
Unearned revenue	171,448	-
Compensated absences - current portion	143,259	57,440
Revenue obligation bonds - current maturities	54,105,000	59,935,000
Total Current Liabilities	61,346,280	64,518,005
Noncurrent Liabilities		
Accrued expenses	29,225	28,826
Net pension liability	30,126	-
Due to other governmental entities	622,846	574,584
Compensated absences	412,116	28,359
Revenue obligation bonds (including unamortized premium)	705,383,205	698,780,909
Total Noncurrent Liabilities	706,477,518	699,412,678
Total Liabilities	767,823,798	763,930,683
Deferred Inflows of Resources		
Pension related amounts	64,249	821
Net Position		
Restricted for environmental improvement	2,035,171,238	1,977,236,321
Unrestricted	15,473,444	14,004,720
Total Net Position	2,050,644,682	1,991,241,041
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 2,818,532,729	\$ 2,755,172,545

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Years Ended June 30, 2016 and 2015

	2016	2015
OPERATING REVENUES		
Loan interest	\$ 34,343,107	\$ 33,640,973
Interest income used as security for revenue bonds	17,054,674	18,870,494
Miscellaneous other	25,416	30,703
Total Operating Revenues	51,423,197	52,542,170
 OPERATING EXPENSES		
Interest	29,538,619	31,300,577
Salaries and benefits	5,179,700	4,457,673
Contractual services and other	3,081,795	3,221,916
Total Operating Expenses	37,800,114	38,980,166
 Operating Income	13,623,083	13,562,004
 NONOPERATING REVENUES (EXPENSES)		
Investment income	1,792,399	1,135,325
Investment income used as security for revenue bonds	27,126,574	3,463,690
Intergovernmental grants	42,986,116	55,812,249
Grants awarded	(7,095,325)	(9,532,629)
Total Nonoperating Revenues (Expenses)	64,809,764	50,878,635
 INCOME BEFORE TRANSFERS	78,432,847	64,440,639
Transfers in	3,123,935	11,306,642
Transfers out	(22,153,141)	(8,011,761)
 Increase in Net Position	59,403,641	67,735,520
 TOTAL NET POSITION - Beginning of Year (as restated for 2015)	1,991,241,041	1,923,505,521
 TOTAL NET POSITION - END OF YEAR	\$2,050,644,682	\$ 1,991,241,041

See accompanying notes to financial statements.

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Collection of loans	\$ 180,499,126	\$ 174,170,680
Interest received on loans	51,776,085	52,415,116
Origination of loans	(112,052,909)	(203,390,663)
Payments to employees for services	(1,832,792)	(3,990,235)
Payments to suppliers and other	(3,533,714)	(3,135,564)
Other operating revenues	25,416	30,703
Net Cash Flows From Operating Activities	114,881,212	16,100,037
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental grants received	40,457,398	56,173,000
Grants paid	(7,095,325)	(9,532,629)
Transfers in	3,123,935	11,306,642
Transfers out	(22,153,141)	(8,011,761)
Proceeds from issuance of long-term debt	50,849,745	-
Retirement of long-term debt	(63,180,000)	(58,400,000)
Interest payments	(32,031,579)	(37,532,446)
Advances to other funds	(15,133)	(2,553)
Net Cash Flows From Noncapital Financing Activities	(30,044,100)	(45,999,747)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	-	(31,032)
Liquidation of investments	8,291,809	7,768,448
Investment and interest income	10,162,398	8,752,715
Net Cash Flows From Investing Activities	18,454,207	16,490,131
Net Increase/(Decrease) in Cash and Cash Equivalents	103,291,319	(13,409,579)
CASH AND CASH EQUIVALENTS - Beginning of Year	464,184,716	477,594,295
CASH AND CASH EQUIVALENTS - END OF YEAR	\$ 567,476,035	\$ 464,184,716

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH FLOWS FROM OPERATING ACTIVITIES		
Operating income	\$ 13,623,083	\$ 13,562,004
Adjustments to Reconcile Operating Income to Net Cash Flows From Operating Activities		
Interest expense classified as noncapital financing activity	28,968,085	31,300,577
Changes in assets and liabilities		
Loans to other governments	68,446,219	(29,219,984)
Due from other funds	(377,091)	133,295
Proportionate share of contributions	(63,111)	(34,821)
Prepaid items	20,156	18,655
Compensated absences	469,575	92
Other assets	81,886	39,577
Other post employment benefits	400	(1,479)
Accrued expenses	100,463	66,266
Accrued interest on bonds	378,302	(96,351)
Due to other funds	3,453,922	333,985
Due to other governmental entities	(220,677)	(1,779)
Total Adjustments	<u>101,258,129</u>	<u>2,538,033</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 114,881,212</u>	<u>\$ 16,100,037</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION		
Unrestricted cash and cash equivalents - statement of net position	\$ 473,557,839	\$ 365,403,382
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	45,669,251	45,594,883
Investments in State of Wisconsin general obligation clean water bonds	187,049,829	176,611,170
Restricted cash and cash equivalents - statement of net position	<u>93,918,196</u>	<u>98,781,334</u>
Total Cash and Investments	800,195,115	686,390,769
Less: Noncash equivalents	<u>(232,719,080)</u>	<u>(222,206,053)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 567,476,035</u>	<u>\$ 464,184,716</u>
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES		
Net change in unrealized gains and losses	<u>\$ 18,729,948</u>	<u>\$ 4,540,353</u>
Bond premium amortization	<u>\$ 22,841,572</u>	<u>\$ 9,306,356</u>

See accompanying notes to financial statements.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The State of Wisconsin Environmental Improvement Fund (the “Fund”) is an enterprise fund of the State of Wisconsin (the “State”) administered by the State of Wisconsin Department of Natural Resources (the “DNR”) and the State of Wisconsin Department of Administration (the “DOA”).

The Fund was established with the adoption of the 1997-1999 State of Wisconsin budget. The Fund replaced the Clean Water Fund Program and expanded loan activity to include drinking water system loans and brownfield loans. The Fund provides for three separate environmental financing programs: the Clean Water Fund Program, the Safe Drinking Water Loan Program, and the Land Recycling Loan Program.

The Clean Water Fund Program was established in 1990 and provides financial assistance to municipalities at subsidized interest rates for the purpose of constructing or improving municipal wastewater facilities. The Safe Drinking Water Loan Program was established in 1997 and provides municipal loans for the construction or repair of municipal drinking water facilities. The following four loan portfolios comprise the Environmental Improvement Fund:

- > **Leveraged Loan Portfolio**—This portfolio is funded by proceeds of Clean Water revenue bonds and operating transfers from the State. Assets in this portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements of the Clean Water Fund Program.
- > **Direct Loan Portfolio**—This portfolio is funded by the U.S. Environmental Protection Agency (the “EPA”) grants and proceeds from the issuance of Environmental Improvement Fund revenue bonds (i.e., a minimum 20% match of EPA capitalization grant). Repayments from loans in this portfolio and proceeds from the issuance of Environmental Improvement Fund revenue bonds (i.e., in addition to the amount needed for match requirements of EPA capitalization grants) are used to fund new loans. Loans in this portfolio are made for wastewater projects that comply with EPA eligibility and reporting requirements of the Clean Water Fund Program.
- > **Proprietary Loan/Grant Portfolio**—This portfolio is funded by operating transfers from the State. Assets of this portfolio are used to fund both loans and hardship grants for qualifying wastewater projects. Repayments from loans in this portfolio may be used to fund new loans or hardship grants under the Clean Water Fund Program.
- > **Drinking Water Loan Portfolio**—This portfolio is funded by the EPA grants and operating transfers from the State (the State is required to match a minimum of 20% of EPA grants). Repayments from loans in this portfolio may be used to fund new loans. Loans in this portfolio are made for drinking water projects that comply with EPA eligibility and reporting requirements under the Safe Drinking Water Loan Program.

The Land Recycling Loan Program is a municipal loan program for the remediation of contaminated lands. As of June 30, 2016 and 2015, there were ten loans granted under this program for a total of \$15,218,891. As of June 30, 2016 and 2015, the total amount drawn on these loans was \$13,500,343. The Land Recycling Program loans are included in the Clean Water Fund Program – Direct Loan Portfolio for reporting purposes.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Implementation of Accounting Standards—In June 2012, the GASB issued statement No. 68 – *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and in November 2013, the GASB issued statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. These statements establish the accounting and financial reporting standards for the employer share of pension plan activities that are administered through trusts and meet certain criteria as well as employer contributions made in a fiscal year subsequent to the pension plan's measurement date. These standards were implemented July 1, 2014. Additional footnote disclosures related to these standards have not been included within this report as amounts are not material to these financial statements. For further information, see the State of Wisconsin's Comprehensive Annual Financial Report as of and for the year ended June 30, 2016.

In February 2015, the GASB issued statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented July 1, 2015.

Net Operating Income/Loss—The Fund incurred net operating income of \$13.6 million in both 2016 and 2015. Management anticipates the Fund will periodically incur net operating losses. As explained in Note 2, a loss will generally result from the Fund's statutory mission to provide loans to municipalities at interest rates below the Fund's own cost of funds. Previous losses have historically been funded by EPA grants and operating transfers from the State of Wisconsin. EPA grants were approximately \$43.0 million and \$55.8 million in 2016 and 2015, respectively, and are classified as intergovernmental grants. Transfers from the State of Wisconsin were approximately \$3.1 million and \$11.3 million in 2016 and 2015, respectively, and are classified as transfers in. Management expects the grants and transfers will continue for the foreseeable future sufficient to fund both the anticipated future net operating losses and, together with additional borrowing, to fund additional loans to municipalities.

Loans Receivable—Loans receivable are recorded at cost. Direct costs to originate loans are not material and are expensed as incurred. Fees received to originate loans are not material and are recorded as income when received.

Interest on Loans Receivable—Interest on loans receivable is recognized on an accrual basis and recorded within Due From Other Governmental Entities on the statements of net position.

Investments—The Fund may invest in direct obligations of the United States and Canada, securities guaranteed by the United States, certificates of deposit issued by banks in the United States, and solvent financial institutions in the State, commercial paper and nonsecured corporation notes and bonds, bankers acceptances, participation agreements, privately placed bonds and mortgages, common and preferred stock and other securities approved by applicable sections of the Wisconsin Statutes, bond resolutions, and various trust indentures (see Note 3).

Investments that are stated at fair value include the State of Wisconsin Investment Board Local Government Investment Pool (see Note 3) and the State of Wisconsin General Obligation Clean Water Bonds (see Note 8). The Fund has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the internal Revenue Code; the amount that must be rebated ("estimated arbitrage") to the U.S. Treasury is recorded as a reduction of investment income (see Note 9). Investment transactions are recorded on the trade date.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Fund holds United States Treasury Notes as investments at June 30, 2016 and 2015 and records the notes at cost. The Fund purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

Accounting standards require that investments in participating interest-earning investment contracts be reported at fair value. The four forward delivery agreements with Wells Fargo (formerly Wachovia) and two forward delivery agreements with JP Morgan Chase Bank described in Note 4 would be considered participating investment contracts under current accounting standards. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 30, 2016, the fair value of the Fund's interest in these agreements was above the cost of the treasury securities owned by \$935,503. At June 30, 2015, the fair value was above the cost by \$1,081,587.

Comparative Data—Certain amounts presented in the prior year data may have been reclassified in order to be consistent with the current year's presentation.

Revenue Obligation Bonds—Interest expense on revenue obligation bonds is recognized on an accrual basis.

Debt Defeasance—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 7).

Deferred Outflows of Resources—A deferred outflow of resources represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that future time.

The Fund defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a deferred outflow of resources.

Cash Equivalents—The Fund considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Fund also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments. Repurchase agreements and guaranteed investment contracts are valued at cost because they are nonparticipating contracts due to the non-negotiability of these investments and because the amount of any withdrawals made do not consider market interest rates.

Cash and cash equivalents in the Direct Loan Portfolio and Leveraged Loan Portfolio, while classified as unrestricted assets under accounting principles generally accepted in the United States ("GAAP"), are restricted as to use under federal statute and code and under the Clean Water Revenue Bond covenants and indenture. Those federal restrictions require that, with few exceptions, the funds can only be used for purposes of making loans to municipalities for program purposes, and that the funds must be kept available "in perpetuity" for such purposes. Likewise, the Clean Water Revenue Bond indenture specifies the use of bond proceeds, proceeds from loan repayments, and money in other accounts created under the bond indenture.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Restricted Assets—Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

Deferred Inflows of Resources—A deferred inflow of resources represents an acquisition of net position that applies to a future period and therefore will not be recognized as an inflow of resources (revenue) until that future time.

Net Position—Net position is classified as either restricted or unrestricted based on the presence or absence of restrictions, including federal laws, the Cleanwater Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended. When both restricted and unrestricted resources are available for use, restricted resources are used first, then unrestricted as they are needed.

Revenue Recognition—Loan interest and investment income are recognized as revenue when earned. Operating grants are recognized as revenue in the period the related expense occurs and include \$43.0 million and \$55.8 million of EPA contributions in 2016 and 2015, respectively.

Hardship Grants—Hardship grants are recognized as an expense when the funds are disbursed.

Transfers In/(Out)—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist of items related to debt service.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Claims and Judgments—Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. Refer to Note 12 on commitments and contingencies.

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS

Loans to local governments at June 30, 2016 and 2015 represent loans for wastewater treatment projects or drinking water projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, virtually all of the loans issued by the Clean Water Fund Program, Safe Drinking Water Loan Program and Land Recycling Loan Program are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State transfers. Interest rates on loans receivable ranged from 0% to 4.95% in both 2016 and 2015. The weighted average interest rate was 2.468% and 2.500% at June 30, 2016 and 2015, respectively. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment.

In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary. At June 30, 2016 and 2015, all loan repayments were performing in accordance with the contractual terms.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 2 – FINANCIAL ASSISTANCE AGREEMENTS TO LOCAL GOVERNMENTS (cont.)

Of the loans outstanding at June 30, 2016 and 2015, \$600,582,530 and \$648,935,006 (30% and 32%), respectively, were loans due from the Milwaukee Metropolitan Sewerage District.

The Clean Water Fund Program, Safe Drinking Water Loan Program, and Land Recycling Loan Program entered into \$230,887,026 of new loans and \$9,499,885 of new grants during fiscal year 2016. For fiscal year 2015, these same programs entered into \$172,173,563 of new loans and \$7,533,727 of new grants. As of June 30, 2016, they had undisbursed commitments of \$226,576,537 relating to loans and \$3,705,271 relating to grants. For fiscal year 2015, they had undisbursed commitments of \$125,038,717 relating to loans and \$1,185,752 relating to grants. From July 1, 2016 to August 24, 2016, the Fund made additional loan disbursements of \$26,441,653 for financial assistance agreements that were outstanding prior to June 30, 2016. \$2,279,653 of additional loans were executed between July 1, 2016 and September 16, 2016. These funding commitments are generally met through the proceeds from additional Federal grants, recycled loan payments, and from the issuance of additional revenue obligation bonds (Note 6).

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 30, 2016 and 2015, cash and cash equivalents consisted of the following:

	2016	2015
Money market mutual funds	\$ 142,900,034	\$ -
Local Government Investment Pool (“LGIP”), at fair value	424,575,519	464,184,509
Miscellaneous cash	<u>482</u>	<u>208</u>
	567,476,035	464,184,717
Less: Amounts classified as restricted assets (see Note 6)	<u>(93,918,196)</u>	<u>(98,781,335)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ 473,557,839</u>	<u>\$ 365,403,382</u>

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal and liquidity while earning a competitive money market rate of return. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is not a Securities and Exchange Commission (“SEC”) registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 30, 2016, the current yield on the LGIP was 0.42%, compared to 0.14% as of June 30, 2015. The LGIP investment is stated at fair value.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

As of June 30, 2016	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 424,575,519	N/A	Not rated	N/A	N/A	N/A	53.1%
Treasury notes – Forward delivery	45,669,251	\$0	N/A	See Note 4	N/A	N/A	5.6
GO Bonds-WI	187,049,829	\$0	Aa2	5-1-33 final maturity	N/A	N/A	23.4
Money market mutual funds	142,900,034	N/A	AAA	Weighted avg. maturity 60 days or less	Within 397 days	N/A	17.9

As of June 30, 2015	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 464,184,509	N/A	Not rated	N/A	N/A	N/A	67.6%
Treasury notes – Forward delivery	45,594,883	\$0	N/A	See Note 4	N/A	N/A	6.7
GO Bonds-WI	176,611,170	\$0	Aa2	5-1-33 final maturity	N/A	N/A	25.7

The Environmental Improvement Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- > State of WI General Obligation Bonds – The fair value calculation used a present value approach and utilized known market spreads.

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
State of WI General Obligation Bonds	\$ -	\$ 187,049,829	\$ -	\$ 187,049,829

Investment Type	December 31, 2015			
	Level 1	Level 2	Level 3	Total
State of WI General Obligation Bonds	\$ -	\$ 176,611,170	\$ -	\$ 176,611,170

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

The Fund does not have an investment policy separate from the State of Wisconsin.

Restricted assets of \$93,918,196 and \$98,781,333 at June 30, 2016 and 2015, respectively, represent amounts legally restricted by the Clean Water revenue bonds. The amounts restricted are the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Fund has entered into multiple agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Clean Water revenue bonds (see Note 6). Four of the agreements are with Wells Fargo (formerly Wachovia) and two are with JP Morgan and each provides for the delivery to, and purchase by, the Fund, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 2006 Series 2, and 2008 Series 1 Clean Water revenue bonds.

Every six months during the term of the agreements, Wells Fargo and JP Morgan are required to deliver United States Treasury securities ("Treasury securities") to the Fund for purchase. The Treasury securities are held as investments by the Fund. The price paid by the Fund for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The agreements may be terminated at the option of the Fund and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination.

Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Fund to Wells Fargo or JP Morgan. If the agreements were terminated at a time when a payment would be due to Wells Fargo or JP Morgan, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 4 – FORWARD DELIVERY AGREEMENTS (cont.)

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2016, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,169,000	0.500%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,174,601
Series 1998-1 Agreement	7,456,000	0.500	7,292,832	5.01	June 1, 2018	7,461,825
Series 1999-1 Agreement	7,119,000	0.500	6,918,903	6.32	June 1, 2020	7,124,562
Series 2006-1 Agreement	6,539,000	0.875	6,422,000	4.56	June 1, 2027	6,554,070
Series 2006-2 Agreement	8,158,000	0.875	8,000,000	4.84	June 1, 2027	8,178,802
Series 2008-1 Agreement	10,105,000	0.500	9,927,500	4.10	June 1, 2028	10,112,895

The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 30, 2015, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,138,000	1.375%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,185,056
Series 1998-1 Agreement	7,424,000	1.375	7,292,832	5.01	June 1, 2018	7,472,942
Series 1999-1 Agreement	7,088,000	1.375	6,918,903	6.32	June 1, 2020	7,134,727
Series 2006-1 Agreement	6,560,000	0.250	6,422,000	4.56	June 1, 2027	6,565,971
Series 2006-2 Agreement	8,183,000	0.250	8,000,000	4.84	June 1, 2027	8,190,448
Series 2008-1 Agreement	10,061,000	1.375	9,969,073	4.10	June 1, 2028	10,127,326

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

Interfunds resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

The following is a schedule of transfers between the loan portfolios and/or other funds at the State of Wisconsin at June 30, 2016 and 2015:

Transferred To	Transferred From	June 30, 2016 Amount	June 30, 2015 Amount	Principal Purpose
Direct Loan Portfolio	Proprietary Portfolio	\$ -	\$ 7,575,311	State match
Proprietary Portfolio	Capital Improvement	59,335	8,221,642	Future debt service
Safe Drinking Water Loan Program	Capital Improvement	3,064,600	3,085,000	State match
Bond Security and Redemption	Direct Loan Portfolio	8,000,000	8,000,000	G.O. bond debt service
Debt Service Fund Program	Proprietary Portfolio	9,148	11,761	Personal services
Debt Service Fund Program	Leveraged Loan Portfolio	14,143,993	-	Excess subsidy return
Subtotal		25,277,076	26,893,714	
Less: Eliminations		(6,247,870)	(23,598,833)	
Total Transfers – Statements of Revenues, Expenses and Changes in Net Position		<u>\$ 19,029,206</u>	<u>\$ 3,294,881</u>	

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS (cont.)

Generally, transfers are used to (1) move revenues from the fund that collects them to the fund that the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

REVENUE OBLIGATION BONDS

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

Clean Water revenue bonds activity as of June 30, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 706,345,000	\$ 254,125,000	\$ 325,655,000	\$ 634,815,000	\$ 51,830,000
Add:					
Unamortized premiums	52,370,909	47,969,199	22,253,363	78,086,745	-
Totals	\$ 758,715,909	\$ 302,094,199	\$ 347,908,363	\$ 712,901,745	\$ 51,830,000

Clean Water revenue bonds activity as of June 30, 2015 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ 764,745,000	\$ -	\$ 58,400,000	\$ 706,345,000	\$ 59,935,000
Add:					
Unamortized premiums	61,677,265	-	9,306,356	52,370,909	-
Totals	\$ 826,422,265	\$ -	\$ 67,706,356	\$ 758,715,909	\$ 59,935,000

Environmental Improvement Fund revenue bonds activity as of June 30, 2016 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Revenue bonds	\$ -	\$ 43,380,000	\$ 3,245,000	\$ 40,135,000	\$ 2,275,000
Add:					
Unamortized premiums	-	7,039,669	588,209	6,451,460	-
Totals	\$ -	\$ 50,419,669	\$ 3,833,209	\$ 46,586,460	\$ 2,275,000

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

Clean Water revenue obligation serial and term bonds as of June 30, 2016 and 2015 consisted of the following:

	2016	2015
1998 Series 2:		
Serial Bonds, no optional redemption, June 1, 2017	\$ 5,665,000	\$ 11,590,000
Unamortized premium on bonds	32,959	102,847
	5,697,959	11,692,847
2002 Series 2:		
Serial Bonds, no optional redemption, June 1, 2016	-	3,935,000
Unamortized premium on bonds	-	39,793
	-	3,974,793
2004 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016 (refunded July 15, 2015)	-	37,305,000
Unamortized premium on bonds	-	757,927
	-	38,062,927
2006 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2016	-	3,575,000
Unamortized premium on bonds	-	36,000
	-	3,611,000
2008 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018 (refunded July 15, 2015)	8,855,000	76,105,000
Unamortized premium on bonds	181,865	2,876,440
	9,036,865	78,981,440
2008 Series 2:		
Serial Bonds, no optional redemption, June 1, 2018	21,965,000	27,335,000
Unamortized premium on bonds	451,100	841,299
	22,416,100	28,176,299
2008 Series 3:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018 (refunded July 15, 2015)	13,685,000	71,850,000
Unamortized premium on bonds	107,003	812,595
	13,792,003	72,662,595
2010 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031 (refunded April 12, 2016)	-	51,625,000
Unamortized premium on bonds	-	3,084,863
	-	54,709,863

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

<i>REVENUE OBLIGATION BONDS</i> (cont.)	2016	2015
2010 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	\$ 14,070,000	\$ 14,070,000
Unamortized premium on bonds	874,962	1,079,235
	14,944,962	15,149,235
2010 Series 3:		
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	49,690,000	49,690,000
2010 Series 4:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031 (refunded April 12, 2016)	19,250,000	100,635,000
Unamortized premium on bonds	1,048,837	7,814,270
	20,298,837	108,449,270
2010 Series 5:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000	36,760,000
Unamortized premium on bonds	2,675,141	3,278,199
	39,435,141	40,038,199
2012 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	49,035,000	51,075,000
Unamortized premium on bonds	6,259,189	6,974,614
	55,294,189	58,049,614
2012 Series 2:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	83,220,000	87,950,000
Unamortized premium on bonds	9,952,628	12,452,102
	93,172,628	100,402,102
2013 Series 1:		
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	78,495,000	82,845,000
Unamortized premium on bonds	10,482,746	12,220,725
	88,977,746	95,065,725
2015 Series 1:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2028	133,235,000	-
Unamortized premium on bonds	20,656,447	-
	153,891,447	-

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

	2016	2015
2016 Series 1:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2031	\$ 120,890,000	\$ -
Unamortized premium on bonds	25,363,868	-
	146,253,868	-
Total of Clean Water Revenue Series	\$ 712,901,745	\$ 758,715,909

Environmental Improvement Fund revenue obligation serial and term bonds as of June 30, 2016 and 2015 consisted of the following:

	2016	2015
2015 Series A:		
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2030	\$ 40,135,000	\$ -
Unamortized premium on bonds	6,451,460	-
	46,586,460	-
Total Environmental Improvement Fund Revenue Series	46,586,460	-
Total of All Series	\$ 759,488,205	758,715,909

The original premium at issuance and the interest rates for Clean Water revenue bonds outstanding at June 30, 2016 or June 30, 2015, were the following:

Series	Original Issue (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
2002 Series 2	(7,344,000)	3.00 – 5.50%
2004 Series 2	(11,408,668)	3.25 – 5.25%
2006 Series 1	(4,951,135)	3.50 – 5.00%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.50%
2010 Series 1	(5,917,653)	3.00 – 5.00%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957 - 5.441%*
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%
2012 Series 1	(9,195,497)	2.00 – 5.00%
2012 Series 2	(20,160,489)	3.96 – 5.00%
2013 Series 1	(16,100,626)	4.50 – 5.00%
2015 Series 1	(23,504,408)	3.75 – 5.00%
2016 Series 1	(24,464,791)	2.00 – 5.00%

* - The effect of the interest rate subsidy on the 2010 Series 3 revenue bonds through June 1, 2025 is \$4,615,527. The amount due in the next fiscal year is \$831,375.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

The original premium at issuance and the interest rates for Environmental Improvement Fund revenue bonds outstanding at June 30, 2016, was the following:

Series	Original Issue (Premium)	Interest Rates
2015 Series A	\$ (7,039,669)	3.00 – 5.00%

Principal and interest due on the Clean Water revenue bonds, net of advance refundings, as of June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2017	\$ 51,830,000	\$ 30,912,345	\$ 82,742,345
2018	60,615,000	28,455,053	89,070,053
2019	55,425,000	25,481,914	80,906,914
2020	54,895,000	22,763,614	77,658,614
2021	51,080,000	20,068,834	71,148,834
2022-2026	230,620,000	64,961,311	295,581,311
2027-2031	124,200,000	18,055,812	142,255,812
2032-2033	6,150,000	410,750	6,560,750
Totals	\$ 634,815,000	\$ 211,109,633	\$ 845,924,633

Principal and interest due on the Clean Water revenue bonds, net of advance refundings, as of June 30, 2015, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2016	\$ 59,935,000	\$ 34,657,283	\$ 94,592,283
2017	60,775,000	31,729,095	92,504,095
2018	60,510,000	28,824,553	89,334,553
2019	55,315,000	25,856,664	81,171,664
2020	54,780,000	23,143,864	77,923,864
2021-2025	239,810,000	78,094,832	317,904,832
2026-2030	147,475,000	25,573,425	173,048,425
2031-2033	27,745,000	1,798,000	29,543,000
Totals	\$ 706,345,000	\$ 249,677,716	\$ 956,022,716

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

Principal and interest due on the Environmental Improvement Fund revenue bonds as of June 30, 2016, are as follows:

Years Ending June 30,	Principal	Interest	Totals
2017	\$ 2,275,000	\$ 2,006,750	\$ 4,281,750
2018	2,390,000	1,893,000	4,283,000
2019	2,510,000	1,773,500	4,283,500
2020	2,640,000	1,648,000	4,288,000
2021	2,770,000	1,516,000	4,286,000
2022-2026	12,150,000	5,427,500	17,577,500
2027-2030	15,400,000	1,971,750	17,371,750
Totals	<u>\$ 40,135,000</u>	<u>\$ 16,236,500</u>	<u>\$ 56,371,500</u>

The Clean Water revenue bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 30, 2016 and 2015, the total assets of the Leveraged Loan Portfolio were \$923,853,799 and \$985,342,392, respectively. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the Clean Water revenue bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Clean Water revenue bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

Clean Water revenue bonds are payable only from revenues derived from 1) pledged loan repayments, 2) amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and 3) all other pledged receipts. Environmental Improvement Fund revenue bonds are payable only from revenues derived from 1) pledged loan amounts, 2) amounts in the Loan Fund, Reserve Fund (if any), and 3) all other pledged receipts.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay outstanding revenue bonds. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues. Specifics of these requirements are as follows:

Type of Revenue Bonds	Outstanding	Issuance Dates	Maturity Through	Percentage of Revenues to Pay Principal and Interest	Principal Interest Outstanding	Principal and Interest Paid In Current Year	Total Net Revenues
Clean Water	\$634.8 M	1998 - 2016	2033	52%	\$845.9 M	\$88.0 M	\$96.4 M
Environmental Improvement Fund	\$ 40.1 M	2015	2030	3%	\$ 56.3 M	\$ 4.1 M	\$ 120 M

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

ADVANCE REFUNDINGS

In 2015, the Fund defeased its Clean Water Revenue Bonds 2004 Series 2, and a portion of its Clean Water Revenue Bonds 2008 Series 1 and Clean Water Revenue Bonds 2008 Series 3 bonds, with an average coupon rate of 5.12% for the refunded bonds, through the issuance of \$133,235,000 of 2015 Series 1 Clean Water Revenue Refunding Bonds with an average coupon rate of 5.00%. The proceeds were used to purchase the U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2016, there was \$141,420,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2015 advance refunding was \$194,127,950 from 2015 through 2028. The cash flow requirements on the 2015, Series 1 refunding bonds are \$183,230,036 from 2015 through 2028. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$10,509,890.

In 2016, the Fund defeased its Clean Water Revenue Bonds 2010 Series 1 and a portion of its Clean Water Revenue Bonds 2010 Series 4 bonds, with an average coupon rate of 5.00% for the refunded bonds, through the issuance of \$120,890,000 of 2016 Series 1 Clean Water Revenue Refunding Bonds with an average coupon rate of 4.95%. The proceeds were used to purchase the U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2016, there was \$124,300,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2016 advance refunding was \$197,668,250 from 2016 through 2031. The cash flow requirements on the 2016, Series 1 refunding bonds are \$189,394,299 from 2016 through 2031. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$7,290,551.

RESTRICTED ASSETS

Among other restrictions under the revenue obligation bond agreements are provisions that require a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net position consist of \$93.9 million of the LGIP balance held as a credit reserve. This amount is required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 7 – DEBT REFUNDING

PRIOR-YEAR DEFEASANCE OF DEBT

In prior years, the Fund defeased certain Clean Water revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 30, 2016, \$237,680,000 of bonds outstanding are considered defeased. At June 30, 2015, \$53,325,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

Call Date	Amount as of June 30, 2016	Amount as of June 30, 2015
6/1/2016	\$ -	\$ 53,325,000
6/1/2018	113,380,000	-
6/1/2020	124,300,000	-

NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for a State of Wisconsin General Obligation Bond as part of the Clean Water Program ("Global Certificate"). Subsequent to the Global Certificate, additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program. Details of these investments as of June 30, 2016 are as follows:

Series	Par Value	Weighted Average Coupon Interest Rate	Market Value
2004	\$ 52,867,890	0.00%	\$ 49,590,988
2007A	8,129,971	5.54	9,860,266
2007B	6,851,446	5.76	9,238,820
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	23,465,906
2009A	15,500,000	5.90	19,327,406
2010A	15,243,000	5.47	20,611,113
2010B	15,000,000	5.96	21,416,898
2012A	11,100,000	3.10	12,375,611
2014A	9,300,000	3.56	10,862,821
Totals	\$ 160,892,307		\$ 187,049,829

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS (cont.)

The details of the investments as of June 30, 2015 are as follows:

Series	Par Value	Weighted Average Coupon Interest Rate	Market Value
2004	\$ 56,855,080	0.00%	\$ 49,534,793
2007A	8,934,070	5.52	10,231,584
2007B	6,851,446	5.76	7,987,137
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	20,548,786
2009A	17,700,000	5.78	20,957,780
2010A	15,243,000	5.47	17,403,345
2010B	15,000,000	5.96	17,859,396
2012A	11,900,000	2.96	11,820,034
2014A	9,800,000	3.40	9,968,315
Totals	<u>\$ 169,183,596</u>		<u>\$ 176,611,170</u>

The Global Certificate and bonds listed above are all registered in the name of the Fund and held by an independent trustee.

Par value of the principal maturities of the Global Certificate and State of Wisconsin General Obligation bonds as of June 30 excluding the 2008A issue which does not have a repayment schedule are as follows:

Years Ending June 30,	2016	2015
2016	\$ -	\$ 8,291,289
2017	12,025,350	12,025,350
2018	13,424,630	13,424,630
2019	11,522,163	11,522,163
2020	10,887,904	10,887,904
2021	8,723,476	8,723,476
2022-2026	43,317,960	43,317,960
2027-2031	46,990,824	46,990,824
2032-2033	3,700,000	3,700,000
Totals	<u>\$ 150,592,307</u>	<u>\$ 158,883,596</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS As of and for the Years Ended June 30, 2016 and 2015

NOTE 9 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water revenue bonds and consisted of the following for the fiscal years ended June 30, 2016 and 2015:

	2016	2015
Interest		
State of Wisconsin Investment Board Local Government Investment Pool	\$ 1,176,419	\$ 454,517
Repurchase Agreement with Bayerische Landesbank	-	452,709
United States Treasury Notes	2,280,105	2,280,203
State of Wisconsin General Obligation Bonds	5,908,737	5,435,970
Federal Interest on Build America Bonds	872,026	770,685
Total Interest	10,237,287	9,394,084
Changes in Realized and Unrealized Gains (Losses)		
State of Wisconsin General Obligation Bonds	18,729,948	(4,540,353)
Total Interest and Changes in Unrealized Gains	28,967,235	4,853,731
Change in Estimated Rebateable Arbitrage Liability	(48,262)	(254,716)
TOTAL INVESTMENT INCOME	\$ 28,918,973	\$ 4,599,015

NOTE 10 – OPERATING GRANTS AND HARDSHIP ASSISTANCE

EPA Operating Grants for Wastewater Projects—The Federal Water Quality Act of 1987 (the “Water Quality Act”) established a joint Federal and State program with the EPA to assist in providing financial assistance to municipalities within the states for governmentally owned wastewater treatment projects. Under the terms of the EPA grant, the State was required (1) to establish the Clean Water Fund Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipalities for governmental owned wastewater treatment projects in a number of ways, provided that such assistance is not in the form of a grant. Reauthorization of the Water Quality Act of 1987 is expected to result in the allocation of capitalization grants to Wisconsin of approximately \$36.1 million for federal fiscal year 2016. Four percent of the EPA grant amount may be used for wastewater program administrative expenses. Authorization levels for years after 2016 are unknown at this time.

EPA Operating Grants for Drinking Water Projects—The Federal Safe Drinking Water Act Amendment of 1996 (the “Safe Drinking Water Act”) established a joint Federal and State program with the EPA to assist in providing financial assistance to municipal and community water system projects. Under the terms of the EPA grant, the State was required (1) to establish the Safe Drinking Water Loan Program, a perpetual state revolving fund into which the grant monies must be deposited, (2) to provide State matching funds equal to 20% of the grant and (3) to use the monies to provide financial assistance to municipal and community water system projects. The Safe Drinking Water Act was authorized through federal fiscal year 2016 and a grant to Wisconsin of approximately \$14.5 million is expected for federal fiscal year 2016.

Reauthorization of the Safe Drinking Water Act may not be acted upon by the present Congress of the United States, although the Fund expects EPA capitalization grants to states to continue into the future. Four percent of the EPA grant amount may be used for water program administrative expenses plus a portion of the grant may be used by DNR for various water-related issues and initiatives.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 10 – OPERATING GRANTS AND HARDSHIP ASSISTANCE (cont.)

Hardship Assistance—Wisconsin statutes require that the Fund provide financial hardship assistance to communities that qualify under Wisconsin Statute 281.58(13). This assistance may come in the form of reduced interest rates (as low as 0%) or grants for wastewater projects subject to limitations prescribed by the statute. At both June 30, 2016 and 2015, the Fund was committed to award \$0 of additional hardship grants. At June 30, 2016 and 2015, the Fund had projected additional hardship grants of \$0 for both years. In addition to hardship grants, the Fund was committed to award \$9,499,885 and \$7,533,727, respectively, of reduced interest rate loans. At June 30, 2016 and 2015, the Fund had projected additional reduced interest rate loans of \$15,187,392 and \$6,665,553, respectively.

NOTE 11 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- > Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*
- > Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > Statement No. 77, *Tax Abatement Disclosures*
- > Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*
- > Statement No. 79, *Certain External Investment Pools and Pool Participants*
- > Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*
- > Statement No. 81, *Irrevocable Split-Interest Agreements*
- > Statement No. 82, *Pension Issues-an Amendment of GASB Statement No. 67, No. 68, and No. 73*

When they become effective, application of these standards may restate portions of these financial statements.

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

NOTES TO FINANCIAL STATEMENTS
As of and for the Years Ended June 30, 2016 and 2015

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Occasionally the Fund is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the state legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Fund's financial position or results of operations.

NOTE 13 – RISK MANAGEMENT

The State of Wisconsin's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, risks are managed internally through self-insurance accounted for in an internal service fund. No separate policies exist for the Fund itself.

SUPPLEMENTAL INFORMATION

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION
BY PROGRAM
As of June 30, 2016

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Assets			
Unrestricted cash and cash equivalents	\$ 362,014,034	\$ 8,021,342	\$ (11,472,677)
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	-	119,173	45,550,078
Receivables			
Loans to local governments - current portion	88,420,816	895,467	62,671,656
Due from other funds	7,036	2,068,098	-
Due from other governmental entities	4,987,510	30,408	2,554,128
Accrued investment income	-	-	190,009
Prepaid items	-	25	16,887
Total Current Assets	<u>455,429,396</u>	<u>11,134,513</u>	<u>99,510,081</u>
Noncurrent Assets			
Restricted assets - cash equivalents	-	-	93,918,196
Investments - State of Wisconsin general obligation clean water bonds, at fair value	-	-	187,049,829
Loans to local governments	985,639,576	6,164,476	543,258,891
Advances to other funds	6,238,282	-	-
Prepaid items	-	-	116,802
Total Noncurrent Assets	<u>991,877,858</u>	<u>6,164,476</u>	<u>824,343,718</u>
Total Assets	<u>1,447,307,254</u>	<u>17,298,989</u>	<u>923,853,799</u>
Deferred Outflows of Resources			
Pension related amounts	-	174,945	-
Unamortized charges	-	-	30,433,129
Total Deferred Outflows of Resources	<u>-</u>	<u>174,945</u>	<u>30,433,129</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 1,447,307,254</u>	<u>\$ 17,473,934</u>	<u>\$ 954,286,928</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 114,995,140	\$ -	\$ 473,557,839
-	-	45,669,251
24,326,955	-	176,314,894
6,537	(1,970,423)	111,248
3,065,585	-	10,637,631
-	-	190,009
-	-	16,912
<u>142,394,217</u>	<u>(1,970,423)</u>	<u>706,497,784</u>
-	-	93,918,196
-	-	187,049,829
259,040,819	-	1,794,103,762
-	-	6,238,282
-	-	116,802
<u>259,040,819</u>	<u>-</u>	<u>2,081,426,871</u>
<u>401,435,036</u>	<u>(1,970,423)</u>	<u>2,787,924,655</u>
-	-	174,945
-	-	30,433,129
-	-	30,608,074
<u>\$ 401,435,036</u>	<u>\$ (1,970,423)</u>	<u>\$ 2,818,532,729</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF NET POSITION
BY PROGRAM
As of June 30, 2016

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
LIABILITIES AND NET POSITION			
Current Liabilities			
Accrued expenses	\$ 32,561	\$ 22,539	\$ 135,566
Accrued interest on bonds	167,229	-	2,576,029
Due to other funds	1,323,101	787,386	1,964,503
Due to other governmental entities	-	-	-
Compensated absences - current portion	-	143,259	-
Unearned revenue	171,448	-	-
Revenue obligation bonds - current maturities	2,275,000	-	51,830,000
Total Current Liabilities	3,969,339	953,184	56,506,098
Noncurrent Liabilities			
Accrued expenses	-	29,225	-
Net pension liability	-	30,126	-
Due to other governmental entities	-	-	622,846
Compensated absences	-	412,116	-
Revenue obligation bonds (including unamortized premium)	44,311,460	-	661,071,745
Total Noncurrent Liabilities	44,311,460	471,467	661,694,591
Total Liabilities	48,280,799	1,424,651	718,200,689
Deferred Inflows of Resources			
Pension related amounts	-	64,249	-
Net Position			
Restricted for environmental improvement	1,399,026,455	511,590	236,086,239
Unrestricted	-	15,473,444	-
Total Net Position	1,399,026,455	15,985,034	236,086,239
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 1,447,307,254	\$ 17,473,934	\$ 954,286,928

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 29,386	\$ -	\$ 220,052
-	-	2,743,258
1,855,470	(1,970,423)	3,960,037
3,226	-	3,226
-	-	143,259
-	-	171,448
-	-	54,105,000
<u>1,888,082</u>	<u>(1,970,423)</u>	<u>61,346,280</u>
-	-	29,225
-	-	30,126
-	-	622,846
-	-	412,116
-	-	705,383,205
-	-	706,477,518
<u>1,888,082</u>	<u>(1,970,423)</u>	<u>767,823,798</u>
-	-	64,249
399,546,954	-	2,035,171,238
-	-	15,473,444
<u>399,546,954</u>	-	<u>2,050,644,682</u>
<u>\$ 401,435,036</u>	<u>\$ (1,970,423)</u>	<u>\$ 2,818,532,729</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
BY PROGRAM
For the Year Ended June 30, 2016

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
OPERATING REVENUES			
Loan interest	\$ 28,098,363	\$ 206,038	\$ -
Interest income used as security for revenue bonds	-	-	17,054,674
Miscellaneous other	-	25,416	-
Total Operating Revenues	<u>28,098,363</u>	<u>231,454</u>	<u>17,054,674</u>
OPERATING EXPENSES			
Interest	994,363	-	28,544,256
Salaries and benefits	1,470,069	383,306	1,533,223
Contractual services and other	106,117	107,820	828,557
Total Operating Expenses	<u>2,570,549</u>	<u>491,126</u>	<u>30,906,036</u>
Operating Income (Loss)	<u>25,527,814</u>	<u>(259,672)</u>	<u>(13,851,362)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	615,878	19,017	872,026
Investment income used as security for revenue bonds	-	-	27,126,574
Intergovernmental grants	30,697,825	-	-
Grants awarded	(4,157,959)	(226,913)	-
Total Nonoperating Revenues (Expenses)	<u>27,155,744</u>	<u>(207,896)</u>	<u>27,998,600</u>
INCOME (LOSS) BEFORE TRANSFERS	52,683,558	(467,568)	14,147,238
Transfers in	-	59,335	-
Transfers out	(8,000,000)	(9,148)	(14,143,993)
Change in Net Position	44,683,558	(417,381)	3,245
TOTAL NET POSITION - Beginning of Year	<u>1,354,342,897</u>	<u>16,402,415</u>	<u>236,082,994</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 1,399,026,455</u>	<u>\$ 15,985,034</u>	<u>\$ 236,086,239</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 6,038,706	\$ -	\$ 34,343,107
-	-	17,054,674
-	-	25,416
<u>6,038,706</u>	<u>-</u>	<u>51,423,197</u>
-	-	29,538,619
1,793,102	-	5,179,700
<u>2,039,301</u>	<u>-</u>	<u>3,081,795</u>
<u>3,832,403</u>	<u>-</u>	<u>37,800,114</u>
<u>2,206,303</u>	<u>-</u>	<u>13,623,083</u>
285,478	-	1,792,399
-	-	27,126,574
12,288,291	-	42,986,116
<u>(2,710,453)</u>	<u>-</u>	<u>(7,095,325)</u>
<u>9,863,316</u>	<u>-</u>	<u>64,809,764</u>
12,069,619	-	78,432,847
3,064,600	-	3,123,935
<u>-</u>	<u>-</u>	<u>(22,153,141)</u>
15,134,219	-	59,403,641
<u>384,412,735</u>	<u>-</u>	<u>1,991,241,041</u>
<u>\$ 399,546,954</u>	<u>\$ -</u>	<u>\$ 2,050,644,682</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2016

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of loans	\$ 90,924,309	\$ 1,060,477	\$ 64,971,048
Interest received on loans	28,190,494	210,057	17,343,482
Origination of loans	(79,912,265)	-	-
Payments to employees for services	(424,502)	(211,748)	(1,073,167)
Payments to suppliers and other	(144,404)	(57,129)	(1,132,358)
Other operating revenues	-	25,416	-
Net Cash Flows From Operating Activities	<u>38,633,632</u>	<u>1,027,073</u>	<u>80,109,005</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental grants received	30,146,082	-	-
Grants paid	(4,157,959)	(226,913)	-
Transfers in	-	59,335	-
Transfers out	(8,000,000)	(9,148)	(14,143,993)
Proceeds from issuance of long-term debt	50,147,251	-	702,494
Retirement of long-term debt	(3,245,000)	-	(59,935,000)
Interest payments	(1,040,361)	-	(30,991,218)
Other cash flows from noncapital financing activities	(15,133)	-	-
Net Cash Flows From Noncapital Financing Activities	<u>63,834,880</u>	<u>(176,726)</u>	<u>(104,367,717)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Liquidation of investments	-	-	8,291,809
Investment and interest income	615,878	(55,871)	9,316,913
Net Cash Flows From Investing Activities	<u>615,878</u>	<u>(55,871)</u>	<u>17,608,722</u>
Net Increase (Decrease) in Cash and Cash Equivalents	103,084,390	794,476	(6,649,990)
CASH AND CASH EQUIVALENTS - Beginning of Year	<u>258,929,644</u>	<u>7,226,866</u>	<u>89,095,509</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 362,014,034</u>	<u>\$ 8,021,342</u>	<u>\$ 82,445,519</u>

Safe Drinking Water Loan Program	Eliminations	Totals
\$ 23,543,292	\$ -	\$ 180,499,126
6,032,052	-	51,776,085
(32,140,644)	-	(112,052,909)
(123,375)	-	(1,832,792)
(2,199,823)	-	(3,533,714)
-	-	25,416
<u>(4,888,498)</u>	-	<u>114,881,212</u>
10,311,316	-	40,457,398
(2,710,453)	-	(7,095,325)
3,064,600	-	3,123,935
-	-	(22,153,141)
-	-	50,849,745
-	-	(63,180,000)
-	-	(32,031,579)
-	-	(15,133)
<u>10,665,463</u>	-	<u>(30,044,100)</u>
-	-	8,291,809
<u>285,478</u>	-	<u>10,162,398</u>
<u>285,478</u>	-	<u>18,454,207</u>
6,062,443	-	103,291,319
<u>108,932,697</u>	-	<u>464,184,716</u>
<u>\$ 114,995,140</u>	<u>\$ -</u>	<u>\$ 567,476,035</u>

**STATE OF WISCONSIN
ENVIRONMENTAL IMPROVEMENT FUND**

STATEMENT OF CASH FLOWS
BY PROGRAM
For the Year Ended June 30, 2016

	Clean Water Fund Program		
	Direct Loan Portfolio	Proprietary Portfolio	Leveraged Loan Portfolio
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FLOWS FROM OPERATING ACTIVITIES			
Operating income (loss)	\$ 25,527,814	\$ (259,672)	\$ (13,851,362)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows From Operating Activities			
Interest expense classified as noncapital financing activity	891,799	-	28,076,286
Changes in assets and liabilities:			
Loans to other governments	11,012,045	1,060,477	64,971,048
Due from other funds	(7,036)	(365,367)	-
Proportionate share of contributions	-	(63,111)	-
Prepaid items	-	3,269	16,887
Compensated absences	-	469,575	-
Other assets	-	81,886	-
Other postemployment benefits	-	400	-
Accrued expenses	31,456	39,227	95,565
Accrued interest on bonds	92,130	4,018	288,808
Due to other funds	1,085,424	56,371	511,773
Due to other governmental entities	-	-	-
Total Adjustments	<u>13,105,818</u>	<u>1,286,745</u>	<u>93,960,367</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 38,633,632</u>	<u>\$ 1,027,073</u>	<u>\$ 80,109,005</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION			
Unrestricted cash and cash equivalents - statement of net position	\$ 362,014,034	\$ 8,021,342	\$ (11,472,677)
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	-	119,173	45,550,078
Investments in State of Wisconsin general obligation clean water bonds	-	-	187,049,829
Restricted cash and cash equivalents - statement of net position	-	-	<u>93,918,196</u>
Total Cash and Investments	<u>362,014,034</u>	<u>8,140,515</u>	<u>315,045,426</u>
Less: Noncash equivalents	<u>-</u>	<u>(119,173)</u>	<u>(232,599,907)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 362,014,034</u>	<u>\$ 8,021,342</u>	<u>\$ 82,445,519</u>
NONCASH INVESTING AND NONCAPITAL FINANCING ACTIVITIES			
Net change in unrealized gains and losses	\$ -	\$ -	\$ 18,729,948
Bond premium amortization	<u>\$ 588,209</u>	<u>\$ -</u>	<u>\$ 22,253,363</u>

Safe Drinking Water Loan Program	Totals
<u>\$ 2,206,303</u>	<u>\$ 13,623,083</u>
-	28,968,085
(8,597,351)	68,446,219
(4,688)	(377,091)
-	(63,111)
-	20,156
-	469,575
-	81,886
-	400
(65,785)	100,463
(6,654)	378,302
1,800,354	3,453,922
(220,677)	(220,677)
<u>(7,094,801)</u>	<u>101,258,129</u>
<u>\$ (4,888,498)</u>	<u>\$ 114,881,212</u>
\$114,995,140	\$ 473,557,839
-	45,669,251
-	187,049,829
-	93,918,196
<u>114,995,140</u>	<u>800,195,115</u>
-	<u>(232,719,080)</u>
<u>\$114,995,140</u>	<u>\$ 567,476,035</u>
<u>\$ -</u>	<u>\$ 18,729,948</u>
<u>\$ -</u>	<u>\$ 22,841,572</u>

STATE OF WISCONSIN ENVIRONMENTAL IMPROVEMENT FUND

OTHER INFORMATION (UNAUDITED)
For the Years Ended June 30, 2016 and 2015

In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Environmental Improvement Fund. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.

REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditors' Report

To the Secretary of the Department of Administration and the Secretary
of the Department of Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund
Madison, Wisconsin

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the State of Wisconsin Environmental Improvement Fund's financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the State of Wisconsin Environmental Improvement Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the State of Wisconsin Environmental Improvement Fund's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Secretary of the Department of Administration and the Secretary
of the Department of Natural Resources of the State of Wisconsin
State of Wisconsin Environmental Improvement Fund

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State of Wisconsin Environmental Improvement Fund's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
December 14, 2016

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Year Ended June 1, 2016

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

TABLE OF CONTENTS

INDEPENDENT AUDITORS' REPORT	1 – 2
FINANCIAL STATEMENTS	
Statement of Net Position – As of June 1, 2016	3
Statement of Revenues, Expenses, and Changes in Net Position – For the Year Ended June 1, 2016	4
Statement of Cash Flows – For the Year Ended June 1, 2016	5 – 6
Notes to Financial Statements	7 – 18
OTHER INFORMATION (UNAUDITED)	19

INDEPENDENT AUDITORS' REPORT

To the Secretary of the Department of Administration and the Secretary of the Department of
Natural Resources of the State of Wisconsin
Leveraged Loan Portfolio
Madison, Wisconsin

Report on the Financial Statements

We have audited the accompanying financial statements of the Leveraged Loan Portfolio, (an environmental financing program) of the State of Wisconsin Environmental Improvement Fund, an enterprise fund of the State of Wisconsin, as of and for the year ended June 1, 2016, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Leveraged Loan Portfolio's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Leveraged Loan Portfolio's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Secretary of the Department of Administration and the Secretary of the Department of
Natural Resources of the State of Wisconsin
Leveraged Loan Portfolio

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Leveraged Loan Portfolio as of June 1, 2016, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Leveraged Loan Portfolio of the State of Wisconsin Environmental Improvement Fund and do not purport to, and do not, present fairly the financial position of the State of Wisconsin, as of June 1, 2016, or June 30, 2016, and the changes in financial position, or cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Leveraged Loan Portfolio's financial statements. The "Other Information" listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Baker Tilly Virchow Krause, LLP

Madison, Wisconsin
December 14, 2016

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF NET POSITION
As of June 1, 2016

<i>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</i>	
Current Assets	
Unrestricted cash and cash equivalents	\$ (12,571,350)
United States Treasury Notes, purchased in connection with forward delivery agreements, at cost	45,550,078
Receivables	
Loans to local governments - current portion	62,671,656
Accrued interest receivable	1,140,052
Due from other governmental entities	1,298,709
Prepaid items	<u>16,887</u>
Total Current Assets	<u>98,106,032</u>
Noncurrent Assets	
Restricted assets - cash equivalents	93,918,196
Investments - State of Wisconsin general obligation clean water bonds, at fair value	182,608,589
Loans to local governments	543,258,891
Prepaid items	<u>118,209</u>
Total Noncurrent Assets	<u>819,903,885</u>
 Total Assets	 <u>918,009,917</u>
Deferred Outflows of Resources	
Unamortized charges	<u>30,875,057</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	 \$ <u>948,884,974</u>
<i>LIABILITIES AND NET POSITION</i>	
Current Liabilities	
Accounts payable	\$ 70,000
Due to other funds	1,800,795
Revenue obligation bonds - current maturities	<u>51,830,000</u>
Total Current Liabilities	<u>53,700,795</u>
Noncurrent Liabilities	
Due to other governmental entities	605,219
Revenue obligation bonds (including unamortized premium)	<u>662,067,485</u>
Total Noncurrent Liabilities	<u>662,672,704</u>
 Total Liabilities	 <u>716,373,499</u>
Net Position	
Restricted for environmental improvement	<u>232,511,475</u>
Total Net Position	<u>232,511,475</u>
 TOTAL LIABILITIES AND NET POSITION	 \$ <u>948,884,974</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 1, 2016

OPERATING REVENUES	
Interest income used as security for revenue bonds	\$ 17,196,631
Total Operating Revenues	<u>17,196,631</u>
OPERATING EXPENSES	
Salaries and benefits	1,494,885
Contractual services and other	1,176,804
Interest	<u>28,946,124</u>
Total Operating Expenses	<u>31,617,813</u>
Operating Loss	<u>(14,421,182)</u>
NONOPERATING REVENUES	
Investment income used as security for revenue bonds	21,892,922
Investment income	<u>872,027</u>
Total Nonoperating Revenues	<u>22,764,949</u>
INCOME BEFORE TRANSFERS	8,343,767
Transfers out	<u>(14,143,993)</u>
Change in Net Position	(5,800,226)
TOTAL NET POSITION - Beginning of Year	<u>238,311,701</u>
TOTAL NET POSITION - END OF YEAR	<u>\$ 232,511,475</u>

See accompanying notes to financial statements.

**STATE OF WISCONSIN
LEVERAGED LOAN PORTFOLIO**

STATEMENT OF CASH FLOWS
For the Year Ended June 1, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Collection on loans	\$ 64,971,048
Interest and dividends received on loans	17,343,482
Payments to employees for services	(1,073,168)
Payments to suppliers and other	<u>(1,510,479)</u>
Net Cash Flows From Operating Activities	<u>79,730,883</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Transfers out	(14,143,993)
Proceeds from issuance of long-term debt	702,494
Retirement of long-term debt	(59,935,000)
Interest payments	<u>(30,991,218)</u>
Net Cash Flows From Noncapital Financing Activities	<u>(104,367,717)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Arbitrage rebate	97,184
Liquidation of investments	8,291,809
Investment and interest income	<u>8,061,196</u>
Net Cash Flows From Investing Activities	<u>16,450,189</u>

Net Decrease in Cash and Cash Equivalents (8,186,645)

CASH AND CASH EQUIVALENTS - Beginning of Year 89,533,491

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 81,346,846

**RECONCILIATION OF OPERATING LOSS TO NET CASH
FLOWS USED BY OPERATIONS**

Operating loss	\$ (14,421,182)
Adjustments to Reconcile Operating Loss to Net Cash Flows From Operating Activities	
Interest expense classified as noncapital financing activity	28,478,153
Changes in assets and liabilities:	
Prepaid items	16,887
Loans to other governments	64,971,048
Interest receivable	146,852
Accounts payable	70,000
Due to other funds	469,125
Total Adjustments	<u>94,152,065</u>
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>\$ 79,730,883</u>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE
STATEMENT OF NET POSITION**

Unrestricted cash and cash equivalents - statement of net position	\$ (12,571,350)
Investments in United States Treasury Notes, purchased in connection with forward delivery agreements	45,550,078
Investments in State of Wisconsin general obligation clean water bonds	182,608,589
Restricted cash and cash equivalents - statement of net position	<u>93,918,196</u>
Total Cash and Investments	309,505,513
Less: Noncash equivalents	<u>(228,158,667)</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 81,346,846</u>

NONCASH INVESTING ACTIVITIES

Net change in unrealized gains and losses	<u>\$ 13,119,186</u>
Bond premium amortization	<u>\$ 15,441,390</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity—The Leveraged Loan Portfolio (the “Portfolio”) is one of three portfolios of the Clean Water Fund Program, an environmental financing program of the State of Wisconsin Environmental Improvement Fund (the “Fund”). The Fund is an enterprise fund of the State of Wisconsin (the “State”) administered by the State of Wisconsin Department of Natural Resources (the “DNR”) and the State of Wisconsin Department of Administration (the “DOA”).

The Portfolio is funded by proceeds of Clean Water revenue bonds and contributions from the State. Assets in the Portfolio are used for loans for Wisconsin municipal wastewater projects that meet applicable State eligibility and reporting requirements.

Implementation of Accounting Standards—In February 2015, the GASB issued statement No. 72 – *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard was implemented June 2, 2015.

Net Operating Loss—The Portfolio incurred an operating loss of \$14.4 million in 2016. Management expects the Portfolio will generally incur net operating losses for the foreseeable future. As explained in Note 2, the losses result from the Portfolio’s statutory mission to provide loans to municipalities at interest rates below the Portfolio’s own cost of funds. The losses have historically been funded by transfers from the State. There were no such transfers made in 2016 for this purpose. Management expects transfers will continue for the foreseeable future sufficient to fund future operating losses.

Loans Receivable—Loans receivable are recorded at cost. Direct costs to originate loans are not material and are expensed as incurred. Fees received to originate loans are not material and are recorded as income when received.

Interest on Loans Receivable—Interest on loans receivable is recognized on an accrual basis on the statement of net position.

United States Treasury Notes, Purchased in Connection with Forward Delivery Agreements—The Portfolio holds United States Treasury Notes as investments at June 1, 2016 and records the notes at cost. The Portfolio purchased these securities in accordance with the Forward Delivery Agreements (see Note 4).

Accounting standards require that investments in participating interest-earning investment contracts be reported at fair value. The four forward delivery agreements with Wells Fargo (formerly Wachovia) and two forward delivery agreements with JP Morgan Chase Bank described in Note 4 would be considered participating investment contracts under current accounting standards. Management has accounted for the agreements as investments in short-term U.S. treasury notes, at cost, rather than as investment contracts at fair value because management believes the difference between cost and fair value does not have a material impact on the financial statements. At June 1, 2016, the fair value of the Fund’s interest in these agreements exceeded the cost of the treasury securities owned by approximately \$1,019,269.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Investments—Investments that are stated at fair value include the State of Wisconsin Investment Board (“SWIB”) Local Government Investment Pool (“LGIP”) (see Note 3). The Portfolio has received fair value information for investments from external sources. Changes in the fair value of investments are included in investment income. All other investments are reported at cost. Accrued interest on investments is recorded as earned. To the extent interest income on investments exceeds applicable arbitrage limits specified in the Internal Revenue Code, the amount that must be rebated (“estimated arbitrage”) to the U.S. Treasury is recorded as a reduction of investment income (see Note 9). Investment transactions are recorded on the trade date.

Restricted Assets—Mandatory segregations of assets are presented as restricted assets. Such segregations are required by bond agreements. The restricted assets will be used for retirement of related long-term debt in the event that sufficient resources are not otherwise available.

Revenue Obligation Bonds—Interest expense on revenue obligation bonds is recognized on an accrual basis.

Debt Defeasance—Advance refundings of debt obligations that meet the criteria of GASB Statement No. 23 are recorded as an extinguishment of debt. The securities held in trust and the defeased obligations are not reported in the financial statements (see Note 7).

Unamortized Charges—The Portfolio defers the difference between the reacquisition price and the net carrying amount of defeased debt and amortizes it as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The unamortized deferred charge related to debt defeasance is classified as a deferred outflow of resources.

Cash Equivalents—The Portfolio considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. The Portfolio also considers as cash equivalents guaranteed investment contracts or repurchase agreements permitting withdrawals required by the bond resolution to meet insufficiencies in debt service payments. Repurchase agreements and guaranteed investment contracts are valued at cost because they are nonparticipating contracts due to the non-negotiability of these investments and because the amount of any withdrawals made do not consider market interest rates.

Net Position—Net position are classified as either restricted or unrestricted based on the presence or absence of restrictions, including federal laws, the Clean Water Act of 1987, resolutions, state statutes, and Title XIV of the 1996 Safe Drinking Water Act, as amended.

Revenue Recognition—Loan interest and investment income are recognized as revenue when earned.

Transfers—Transfers in consist of capital contributions from the State of Wisconsin and are recognized as the contributions are received. Transfers out consist of amounts provided for debt service.

Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 1 – NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

Claims and Judgments—Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments are recorded as expenses when the related liabilities are incurred. Refer to Note 11 on commitments and contingencies.

NOTE 2 – FINANCIAL ASSISTANCE COMMITMENTS TO LOCAL GOVERNMENTS

Leveraged loans to local governments at June 1, 2016, represent loans for wastewater treatment projects and are for terms of up to 20 years. These loans are made at a variety of prescribed interest rates based on project type categories. In order to effectuate statutory policy, a majority of the loans issued by the Portfolio are at interest rates that are below the State's cost of borrowing. The net losses that can result from this negative interest margin are funded by State contributions. Interest rates on loans receivable ranged from 0% to 4.95% in 2016. The weighted average interest rate was 2.571% at June 1, 2016. The loans contractually are revenue obligations or general obligations of the local governments, or both. Additionally, various statutory provisions exist which provide further security for payment. In the event of a default, the State can intercept State aid payments due to the applicable local government, induce an additional charge to the amount of property taxes levied by the county in which the applicable local government is located, or both. Accordingly, no reserve for loan loss is deemed necessary.

Of the loans outstanding at June 1, 2016, \$238,520,362 (39%) were loans due from the Milwaukee Metropolitan Sewerage District.

The Leverage Portfolio did not enter into any new loans during the 12 month period ended June 1, 2016. As of June 1, 2016, the Portfolio had undisbursed loan commitments totaling \$9,127,821. From June 1, 2016 to September 19, 2016, the Portfolio made no additional loan disbursements for financial assistance agreements that were outstanding prior to June 1, 2016. There were no additional leverage loans executed between June 1, 2016 and September 19, 2016. These funding commitments are generally met through the proceeds from the issuance of additional Clean Water revenue bonds and investment earnings thereon (Note 6). Financial assistance in the form of grants is not provided in the Leverage Portfolio. The management of the EIF may elect to switch the target funding portfolio for a loan from Leverage to another loan portfolio based on various business or program needs.

NOTE 3 – CASH AND CASH EQUIVALENTS

As of June 1, 2016, cash and cash equivalents consisted of the following:

Local Government Investment Pool ("LGIP"), at fair value	
Cash held by custodian	\$ 81,346,846
Less: Amounts classified as restricted assets (see Note 6)	<u>(93,918,196)</u>
Total Unrestricted Cash and Cash Equivalents	<u>\$ (12,571,350)</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 3 – CASH AND CASH EQUIVALENTS (cont.)

The LGIP is an investment fund managed by SWIB that accepts investment deposits from over 1,000 municipalities and other public entities in the State of Wisconsin. The objectives of the LGIP are to provide safety of principal and liquidity while earning a competitive money market rate of return. The LGIP functions in a manner similar to a money market fund in that the yield earned changes daily and participants may invest or withdraw any or all amounts on a daily basis at par value. The LGIP is not a SEC registered investment, but is regulated by Wisconsin Statutes 25.14 and 25.17. At June 1, 2016, the current yield on the LGIP was 0.42%. The LGIP investment is stated at fair value.

	Amount	Exposure to Custodial Credit Risk	Credit Risk	Interest Rate Risk	Interest Rate Highly Sensitive	Foreign Currency Rate	% of Portfolio
LGIP	\$ 81,346,846	N/A	Not rated	N/A	N/A	N/A	26.3%
Treasury notes – Forward delivery	45,550,078	\$0	N/A	See Note 4	N/A	N/A	14.7
GO Bonds-WI	182,608,589	\$0	Aa2	5-1-33 final maturity	N/A	N/A	59.0

The Leveraged Loan Portfolio categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The valuation methods for recurring fair value measurements are as follows:

- > State of WI General Obligation Bonds – The fair value calculation used a present value approach and utilized known market spreads.

Investment Type	December 31, 2016			
	Level 1	Level 2	Level 3	Total
State of WI General Obligation Bonds	\$ -	\$ 182,608,589	\$ -	\$ 182,608,589

The Leveraged Loan Portfolio does not have an investment policy separate from the State of Wisconsin.

Restricted assets of \$93,918,196 represent amounts legally restricted by the Clean Water revenue bonds. The amount restricted is the product of the average annual debt service of the outstanding, disbursed loans times a factor of 120%.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 4 – FORWARD DELIVERY AGREEMENTS

The Portfolio has entered into six agreements for the future delivery and purchase of securities to be held as investments of the loan credit reserve fund of the Revenue Obligation Bonds (see Note 6). Four of the agreements are with Wells Fargo (formerly Wachovia) and two are with JP Morgan and each provides for the delivery to, and purchase by, the Portfolio, of securities with a maturity value equal to the purchase price plus earnings calculated at the rate of the agreements. The agreements were entered into in conjunction with the 1997 Series 1, 1998 Series 1, 1999 Series 1, 2006 Series 1, 2006 Series 2, and 2008 Series 1 Revenue Obligation Bonds.

Every six months during the term of the agreements, Wells Fargo and JP Morgan are required to deliver United States Treasury securities (“Treasury securities”) to the Portfolio for purchase. The Treasury securities are held as investments by the Portfolio. The price paid by the Portfolio for the Treasury securities is determined under the contract. That price is that which results in the predetermined annual earnings rate computed on the notional amount, taking into account the coupon interest on the delivered Treasury securities. The redemption value of the securities purchased for investment must equal at least the purchase price of the securities plus earnings calculated by multiplying the notional amount times the annual earnings rate as calculated for the term until the next bond payment date. The agreements may be terminated at the option of the Portfolio and a payment between the parties will be made to compensate for the difference in present value of the earnings expected under each agreement and the earnings available on similar agreements at the time of the termination.

Management has asserted that it does not anticipate terminating the agreements at a time when a payment would be required from the Portfolio to Wells Fargo or JP Morgan. If the agreements were terminated at a time when a payment would be due to Wells Fargo or JP Morgan, management has also asserted that it would be able to enter into similar agreements that would have consistent present values as the agreements are valued in relation to prevailing Treasury security rates. In addition, if the agreements are terminated in whole or in part due to the need to use funds at the maturity date for making a debt service payment on the bonds, then there is not a compensating payment made between the parties.

By GASB definition, these securities are classified as having no exposure to custodial credit risk. The par values, coupon rates, the cost and rate at which the Treasury Notes accrue interest in accordance with the Forward Delivery Agreements at June 1, 2016, are as follows:

	Par Value of Treasuries	Coupon Rate of Treasuries	Cost of Treasuries	Agreement Interest Rate	Agreement Maturity Date	Agreement Market Value
Series 1997-1 Agreement	\$ 7,169,000	0.500%	\$ 6,992,075	5.58%	June 1, 2017	\$ 7,168,440
Series 1998-1 Agreement	7,456,000	0.500	7,292,832	5.01	June 1, 2018	7,455,418
Series 1999-1 Agreement	7,119,000	0.500	6,918,903	6.32	June 1, 2020	7,118,444
Series 2006-1 Agreement	6,539,000	0.875	6,422,000	4.56	June 1, 2027	6,550,494
Series 2006-2 Agreement	8,158,000	0.875	8,000,000	4.84	June 1, 2027	8,172,340
Series 2008-1 Agreement	10,105,000	0.500	9,927,500	4.10	June 1, 2028	10,104,211

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 5 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a schedule of interfund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Proprietary Portfolio	Leveraged Loan Portfolio	\$ 1,800,795
Total Due to Other Funds – Statement of Net Position		<u>\$ 1,800,795</u>

This interfund resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS

REVENUE OBLIGATION BONDS

Revenue bonds are payable only from revenues derived from the operation of the loan programs.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Revenue bonds	\$ 706,345,000	\$ 254,125,000	\$ 325,655,000	\$ 634,815,000	\$ 51,830,000
Add:					
Unamortized premiums	<u>53,085,924</u>	<u>47,969,199</u>	<u>21,972,638</u>	<u>79,082,485</u>	<u>-</u>
Totals	<u>\$ 759,430,924</u>	<u>\$ 302,094,199</u>	<u>\$ 347,627,638</u>	<u>\$ 713,897,485</u>	<u>\$ 51,830,000</u>

Revenue obligation serial and term bonds as of June 1, 2016 consisted of the following:

	<u>2016</u>
1998 Series 2:	
Serial Bonds, no optional redemption, June 1, 2017	\$ 5,665,000
Unamortized premium on bonds	<u>35,917</u>
	<u>5,700,917</u>
2008 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	8,855,000
Unamortized premium on bonds	<u>192,469</u>
	<u>9,047,469</u>
2008 Series 2:	
Serial Bonds, no optional redemption, June 1, 2018	21,965,000
Unamortized premium on bonds	<u>477,404</u>
	<u>22,442,404</u>
2008 Series 3:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2018	13,685,000
Unamortized premium on bonds	<u>111,323</u>
	<u>13,796,323</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

<i>REVENUE OBLIGATION BONDS</i> (cont.)	<u>2016</u>
2010 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2021	\$ 14,070,000
Unamortized premium on bonds	892,359
	<u>14,962,359</u>
2010 Series 3:	
Build America Bonds, optional redemption for bonds at 100% of par, June 1, 2025	<u>49,690,000</u>
2010 Series 4:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2031	19,250,000
Unamortized premium on bonds	1,084,446
	<u>20,334,446</u>
2010 Series 5:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2023	36,760,000
Unamortized premium on bonds	2,726,386
	<u>39,486,386</u>
2012 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2033	49,035,000
Unamortized premium on bonds	6,316,240
	<u>55,351,240</u>
2012 Series 2:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2024	83,220,000
Unamortized premium on bonds	10,147,761
	<u>93,367,761</u>
2013 Series 1:	
Serial Bonds, optional redemption for bonds at 100% of par, June 1, 2027	78,495,000
Unamortized premium on bonds	10,614,373
	<u>89,109,373</u>
2015 Series 1:	
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2028	133,235,000
Unamortized premium on bonds	20,941,127
	<u>154,176,127</u>
2016 Series 1:	
Serial Bonds optional redemption for bonds at 100% of par, June 1, 2031	120,890,000
Unamortized premium on bonds	25,542,680
	<u>146,432,680</u>
Total of All Series	<u>\$ 713,897,485</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

The original issue discount or premium at issuance and the interest rates at June 1, 2016, on the following bond series were:

Series	Original Issue (Premium)	Interest Rates
1998 Series 2	\$ (7,739,808)	4.00 – 5.50%
2008 Series 1	(7,712,015)	4.00 – 5.00%
2008 Series 2	(3,393,398)	5.00%
2008 Series 3	(2,764,120)	3.00 – 5.50%
2010 Series 2	(2,065,947)	5.00%
2010 Series 3	-	3.957% - 5.441%*
2010 Series 4	(13,528,717)	3.00 – 5.00%
2010 Series 5	(5,845,742)	5.00%
2012 Series 1	(9,195,497)	2.00 – 5.00%
2012 Series 2	(20,160,489)	3.96 – 5.00%
2013 Series 1	(16,100,626)	4.50 – 5.00%
2015 Series 1	(23,504,408)	3.75 – 5.00%
2016 Series 1	(24,464,791)	2.00 – 5.00%

* - The effect of the interest rate subsidy on the 2010 Series 3 revenue bonds through June 1, 2025 is \$4,615,527. The amount due in the next fiscal year is \$831,375.

Principal and interest due on the bonds, net of advance refundings, as of June 1, 2016, are as follows:

Years Ending June 1,	Principal	Interest	Totals
2017	\$ 51,830,000	\$ 30,912,345	\$ 82,742,345
2018	60,615,000	28,455,053	89,070,053
2019	55,425,000	25,481,914	80,906,914
2020	54,895,000	22,763,614	77,658,614
2021	51,080,000	20,068,834	71,148,834
2022-2026	230,620,000	64,961,311	295,581,311
2027-2031	124,200,000	18,055,812	142,255,812
2032-2033	6,150,000	410,750	6,560,750
Totals	<u>\$ 634,815,000</u>	<u>\$ 211,109,633</u>	<u>\$ 845,924,633</u>

The revenue obligation bonds are collateralized by a security interest in all assets of the Leveraged Loan Portfolio. At June 1, 2016, the total assets of the Leveraged Loan Portfolio were \$948,884,974. Neither the full faith and credit nor the taxing power of the State is pledged for the payment of the revenue obligation bonds. However, as the loans granted to the municipalities are at an interest rate which is less than the Revenue Bond rate, the State is obligated by the Clean Water Fund General Resolution to fund, prior to each loan disbursement, a reserve, which subsidizes the Leveraged Loan Portfolio in an amount to offset this interest rate disparity.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

REVENUE OBLIGATION BONDS (cont.)

Revenue obligation bonds are payable only from revenues derived from 1) pledged loan repayments, 2) amounts in the Loan Fund, Loan Credit Reserve Fund, and Subsidy Fund, and 3) all other pledged receipts.

The Environmental Improvement Fund has pledged future loan revenues, net of specified operating expenses, to repay \$634.8 million in revenue bonds issued between 1998-2016. Proceeds from the bonds provided financing for loans to municipalities to construct or improve water and wastewater projects. The bonds are payable solely from loan revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require 55% of revenues. The total principal and interest remaining to be paid on the bonds is \$845,924,633. Principal and interest paid for the current year and total net revenues were \$91.7 million and \$97.0 million, respectively.

ADVANCE REFUNDINGS

In 2015, the Fund defeased its Clean Water Revenue Bonds 2004 Series 2, and a portion of its Clean Water Revenue Bonds 2008 Series 1 and Clean Water Revenue Bonds 2008 Series 3 bonds, with an average coupon rate of 5.12% for the refunded bonds, through the issuance of \$133,235,000 of 2015 Series 1 Clean Water Revenue Refunding Bonds with an average coupon rate of 5.00%. The proceeds were used to purchase the U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2016, there was \$141,420,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2015 advance refunding was \$194,127,950 from 2015 through 2028. The cash flow requirements on the 2015, Series 1 refunding bonds are \$183,230,036 from 2015 through 2028. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$10,509,890.

In 2016, the Fund defeased its Clean Water Revenue Bonds 2010 Series 1 and a portion of its Clean Water Revenue Bonds 2010 Series 4 bonds, with an average coupon rate of 5.00% for the refunded bonds, through the issuance of \$120,890,000 of 2016 Series 1 Clean Water Revenue Refunding Bonds with an average coupon rate of 4.95%. The proceeds were used to purchase the U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. Accordingly, the trust assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2016, there was \$124,300,000 of the defeased bonds outstanding that will be secured by the irrevocable trust's remaining funds.

The cash flow requirements on the refunded bonds prior to the 2016 advance refunding was \$197,668,250 from 2016 through 2031. The cash flow requirements on the 2016, Series 1 refunding bonds are \$189,394,299 from 2016 through 2031. The advance refunding resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$7,290,551.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 6 – REVENUE OBLIGATION BONDS AND RESTRICTED ASSETS (cont.)

RESTRICTED ASSETS

Among other restrictions under the revenue obligation bond agreements are provisions that require that a specified amount of cash and investments be held by an independent trustee in a reserve account for the purpose of paying bond interest and principal when due. The restricted assets on the statement of net position consist of \$12.6 million of the Treasury securities (Note 4) and \$93.9 million of the LGIP balance held as a credit reserve. These amounts are required in order to satisfy the conditions of certain agreements related to maintaining the minimum credit ratings on the bonds.

NOTE 7 – PRIOR-YEAR DEFEASANCE OF DEBT

In prior years, the Fund defeased certain revenue obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Fund's financial statements. At June 1, 2016, \$237,680,000 of bonds outstanding are considered defeased. The bonds are callable as follows:

<u>Call Date</u>	<u>Amount as of June 1, 2016</u>
6/1/2016	\$ 53,325,000
6/1/2018	113,380,000
6/1/2020	124,300,000

NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS

In April 2004, all of the State of Wisconsin General Obligation Bonds previously owned by the Fund were exchanged for a State of Wisconsin General Obligation Bond as part of the Clean Water Program ("Global Certificate"). Subsequent to the Global Certificate, additional State of Wisconsin General Obligation Bonds were issued for the Clean Water Fund Program. Details of these investments as of June 1, 2016 are as follows:

<u>Series</u>	<u>Par Value</u>	<u>Weighted Average Coupon Interest Rate</u>	<u>Market Value</u>
2004	\$ 52,867,890	0.00%	\$ 48,887,707
2007A	8,129,971	5.54	9,699,823
2007B	6,851,446	5.76	8,942,855
2008A	10,300,000	Less than 1%	10,300,000
2008B	16,600,000	6.16	22,758,969
2009A	15,500,000	5.90	18,945,835
2010A	15,243,000	5.47	19,863,169
2010B	15,000,000	5.96	20,591,044
2012A	11,100,000	3.10	12,072,163
2014A	9,300,000	3.56	10,547,024
Totals	<u>\$ 160,892,307</u>		<u>\$ 182,608,589</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 8 – GLOBAL CERTIFICATE AND STATE OF WISCONSIN GENERAL OBLIGATION BONDS (cont.)

The Global Certificate and bonds listed above are all registered in the name of the Fund and held by an independent trustee.

Par value of the principal maturities of the Global Certificates as of June 1 excluding the 2008A issue which does not have a repayment schedule are as follows:

Years Ending June 1,	
2017	\$ 12,025,350
2018	13,424,630
2019	11,522,163
2020	10,887,904
2021	8,723,476
2022-2026	43,317,960
2027-2031	46,990,824
2032-2033	<u>3,700,000</u>
Totals	<u>\$ 150,592,307</u>

NOTE 9 – INVESTMENT INCOME

Investment income is recorded net of estimated required arbitrage relating to outstanding State of Wisconsin Clean Water revenue bonds and consisted of the following for the fiscal year ended June 1, 2016:

Interest	
State of Wisconsin Investment Board Local Government Investment Pool	\$ 237,565
United States Treasury Notes	2,280,105
State of Wisconsin General Obligation Bonds	5,908,737
Federal interest on Build America Bonds	<u>872,027</u>
Total Interest	<u>9,298,434</u>
Changes in Realized and Unrealized Gains (Losses)	
State of Wisconsin General Obligation Bonds	<u>13,119,186</u>
Total Interest and Changes in Unrealized Gains (Losses)	22,417,620
Change in Estimated Rebatale Arbitrage Liability	<u>347,329</u>
TOTAL INVESTMENT INCOME	<u>\$ 22,764,949</u>

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

NOTES TO FINANCIAL STATEMENTS
As of and for the Year Ended June 1, 2016

NOTE 10 – EFFECT OF NEW ACCOUNTING STANDARDS ON CURRENT-PERIOD FINANCIAL STATEMENTS

The Governmental Accounting Standards Board (GASB) has approved the following:

- > Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- > Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*
- > Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*
- > Statement No. 77, *Tax Abatement Disclosures*
- > Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*
- > Statement No. 79, *Certain External Investment Pools and Pool Participants*
- > Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*
- > Statement No. 81, *Irrevocable Split-Interest Agreements*
- > Statement No. 82, *Pension Issues-an Amendment of GASB Statement No. 67, No. 68, and No. 73*

When they become effective, application of these standards may restate portions of these financial statements.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Occasionally the Portfolio is party to various pending claims and legal proceedings. Although the outcome of such matters cannot be forecasted with certainty, it is the opinion of management and the state legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Portfolio's financial position or results of operations.

NOTE 12 – RISK MANAGEMENT

The State of Wisconsin's policy is generally not to purchase commercial insurance for the risk of losses to which it is exposed. Instead, risks are managed internally through self-insurance accounted for in an internal service fund. No separate policies exist for the Portfolio itself.

STATE OF WISCONSIN LEVERAGED LOAN PORTFOLIO

OTHER INFORMATION (UNAUDITED)
For the Year Ended June 1, 2016

In management's opinion, the Governmental Accounting Standards Board (GASB) does not require an MD&A for individual fund reports under GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Therefore, the State has not prepared an MD&A for the State of Wisconsin Leveraged Loan Portfolio. An MD&A is included in the Comprehensive Annual Financial Report for the State of Wisconsin, which includes all funds and component units.